

March 15, 2005

Lyons Gray, Chair
A. Stanley Meiburg, Executive Director
U.S. Environmental Protection Agency
Environmental Finance Advisory Board
Washington, D.C. 20460

Dear Mr. Gray and Mr. Meiburg:

Thank you for your letter of January 10, 2005, to the Environmental Protection Agency (EPA), regarding innovations in watershed financing. I appreciate the Environmental Finance Advisory Board's (EFAB) Non-Point Source Financing Workgroup's efforts to foster innovative watershed finance mechanisms. I also applaud EFAB's efforts to enhance collaboration among EPA's environmental finance efforts, including the Office of the Chief Financial Officer's (OCFO) Environmental Finance Program and Environmental Finance Center (EFC) Network and the Office of Wetlands, Oceans, and Watersheds' (OWOW) Sustainable Finance Team. We plan to continue our investments in the area of innovative watershed finance and welcome your assistance in these efforts.

Before turning to your recommendations, I want to express EPA's continued commitment to developing innovative mechanisms to fund watershed protection and restoration. As you note, EPA has taken numerous steps to address this challenge, such as establishing OCFO's Environmental Finance Program and OWOW's Sustainable Finance Team. These groups build the capacity of watershed organizations to develop innovative finance mechanisms by conducting finance workshops, developing funding databases, and producing finance planning tools. EPA also continues its investment in the Clean Water and Drinking Water State Revolving Funds. In recent years, the Clean Water and Drinking Water State Revolving Fund (CWSRF) program has provided about \$4 billion annually to fund water quality protection projects for wastewater treatment, non-point source pollution control, and watershed management. This funding has spurred numerous watershed finance innovations, such as the Ohio EPA's use of CWSRF to support both point and non-point source projects by offering communities low interest rate loans for wastewater treatment plant improvements if the communities also sponsor projects that protect or restore water resources. That said, I also agree that more needs to be done to ensure that adequate resources are available to support effective watershed management.

With regard to your specific recommendations, my responses follow.

- *Recommendation #1: Sponsor a roundtable involving states, localities, financial institutions, businesses, non-profits, and others to explore the full range of possible financing options.*

I believe that such an event would be beneficial if it is well-focused, creates clear and realistic action items that participating entities can pursue, and provides effective mechanisms for disseminating the results to watershed organizations. I believe the focus should be on three themes: diversifying funding options, utilizing private sources of funding, and building watershed organizations business strategies. EPA will explore the availability of funds to sponsor such an event.

- *Recommendation #2: Expand training for watershed groups and others in the use of innovative financing and funding tools and of local resources and networks to increase financing and funding options. Use the existing training capacity of the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) and others to conduct such training.*

EPA agrees that finance training is a key ingredient to fostering innovative watershed finance. The Agency's State Revolving Loan Fund programs provide continuous training to the States on creative uses of this funding source, and EPA has conducted finance training for all of the 28 National Estuary Programs. Additional watershed finance training is needed, however, and EPA is taking steps to meet this need. OWOW's Sustainable Finance Team is developing an on-line watershed finance training module to help watershed organizations learn about the basic steps involved in watershed finance planning, diversifying their funding sources, and obtaining private funding. The Sustainable Finance Team will also conduct workshops in Maryland, Pennsylvania, Virginia, and West Virginia on innovative approaches to funding non-point source projects.

Still, given that thousands of watershed organizations exist and that many of them are struggling to fund local watershed projects, EPA agrees that even more finance training would be beneficial. To maximize its impact, such training should be in the form of "train-the-trainer" style workshops that enable participants (e.g., extension agents and other trainers) to learn about innovative watershed funding tools and tailor this information to fit their particular audiences.

- *Recommendation #3: Develop additional case studies to provide watershed groups with finance lessons learned. Solicit the EFCs and other university watershed and finance centers to contribute case study materials.*

EPA's Environmental Finance and State Revolving Loan Fund Programs have developed numerous case studies that provide watershed organizations with innovative watershed finance

tools. In addition, OWOW's Sustainable Watershed Finance Team is developing additional innovative watershed finance case studies. We welcome your assistance in developing these case studies and identifying additional universities and finance centers that are interested in contributing to this effort.

- *Recommendation #4: Encourage or require recipients of EPA watershed grants to complete watershed finance training, such as EPA's Watershed Academy finance module.*

I believe this idea has merit. To help ensure that our grantees continue to succeed in the protection and restoration of watersheds, it is essential that they develop long-term financial strategies. Requiring finance training could be one way to facilitate their long-term financial strategies.

As we move into the next level of innovative watershed finance, please know that EPA remains committed to providing innovative finance tools to watershed organizations. Our commitment to watershed groups helps alleviate their financial challenges and enable them to better protect their watershed. We look forward to collaborating with EFAB on a range of approaches that will ensure even greater progress in the coming years.

Thank you again for your letter. I welcome any additional thoughts about my responses to your recommendations or EPA's role in fostering sustainable watershed financing. If you have any questions, please contact me or have your staff call Diane C. Regas, Director, Office of Wetlands, Oceans and Watersheds at (202)566-1146.

Sincerely,

Original signed by Benjamin H. Grumbles

Benjamin H. Grumbles
Assistant Administrator